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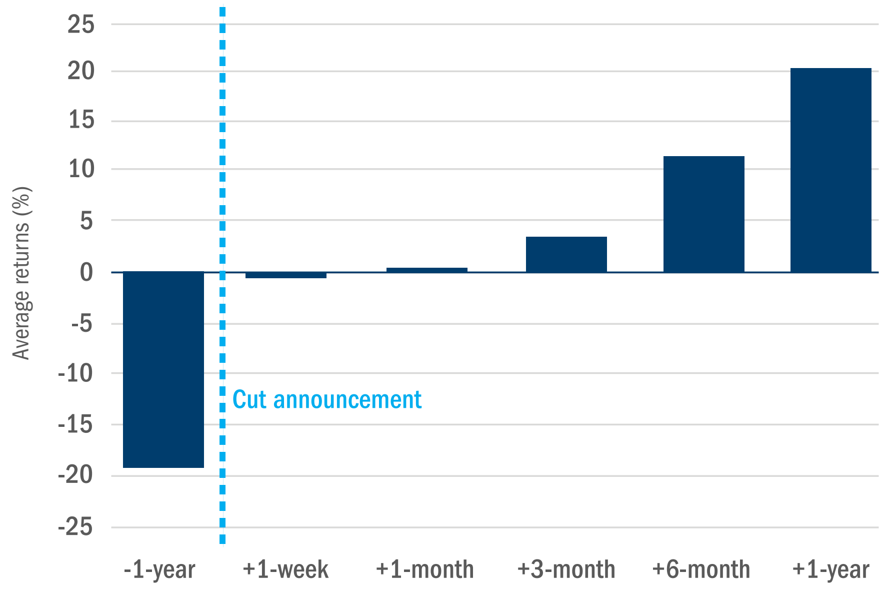
Impact of a dividend cut (relative performance)



Source: Wolfe Research Accounting & Tax Policy Research as of 10/31/18. The universe includes Russell 3000 companies, excluding <$250 million market capital companies since 1995. Measurement date from 5 days after the cut announcement. Past performance is not a guarantee of future results. There is no guarantee that these trends will continue. This information is intended for illustrative purposes only. It is not intended to be representative of specific portfolio holdings.

By Ed Kerschner, Chief Portfolio Strategist

You can incrementally improve on a dividend strategy by avoiding dividend cuts before they occur. The impact of a dividend cut is potentially twofold: both the dividend and the price of the stock can be affected.

Markets are efficient and may indicate if a company will cut a dividend in the year prior to the cut, leading to the stock's price decline. In the year before a dividend cut, those stocks have historically underperformed their universe by almost 20%. An analysis of free cash flow or net income can help gauge the sustainability of dividends.

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